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CanadaWest FOUNDATION

Our Vision
A dynamic and prosperous West in a strong Canada.

Our Mission
A leading source of strategic insight, conducting and communicating non-partisan economic and public policy research of importance to the four western provinces and all Canadians.

CURRENTS Western Canada's Monthly Economic Bulletin

Vol. 2008, No. 12 a CanadaWest foundation publication

Monthly Highlights

Canadian employment fell by 71,000 in November, the largest loss since the 1982 recession. Job growth paused in the West as gains in Manitoba (+2,400) and Saskatchewan (+1,300) were offset by declines in Alberta (-3,700) and BC (-700). Unemployment rates declined across the West while the national rate edged up from 6.2% to 6.3%.

Consumer price inflation was 2.6% nationally in October, dropping sharply from September's 3.4% as pressure on gasoline prices eased. Manitoba (+3.0%) and Saskatchewan (+3.4%) were the only Canadian provinces not to report a price slowdown.

Retail sales advanced by 1.1% in the West in September despite a near-flat performance in Saskatchewan (+0.1%). However, Saskatchewan led western growth over the third quarter, posting growth of 1.0% compared to 0.1% in the rest of the West.

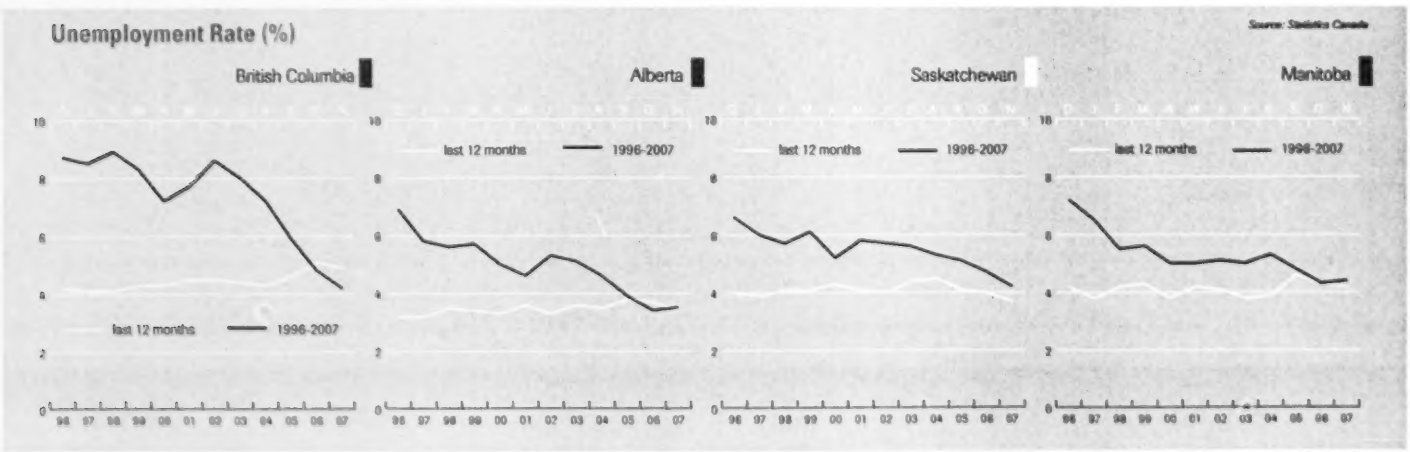
Wholesale trade was a different story in September (-2.2%), with all provinces reporting lower sales. Saskatchewan wholesale trade dropped 5.8% after six consecutive monthly gains, mainly due to lower sales in the "other products" sector, which includes agricultural fertilizers and supplies.

Manufacturers in Alberta led all provincial sales gains in September with a 4.2% increase. Sales in Alberta's petroleum and coal product industry jumped 7.3% despite a drop in prices.

Average weekly earnings jumped 2.1% in Alberta in September, significantly more than the Canadian average (+0.6%).

Monthly Economic Statistics	BC	AB	SK	MB	Canada	Reference Month
Employment (SA, 000s)	2,310.4	2,034.9	520.6	609.6	17,145.2	November
% change, 3-month ma, yoy	1.4	3.0	3.1	1.0	1.2	
Unemployment rate (SA, %)	4.9	3.4	3.7	4.2	6.3	November
Participation rate (SA, %)	66.2	74.8	69.9	69.7	67.6	November
Average weekly earnings (SA, $)	786.68	894.46	764.93	726.34	798.57	September
% change, 3-month ma, yoy	2.2	4.8	4.3	2.6	2.9	
CPI inflation, annual (%)	2.5	2.4	3.5	3.0	2.6	October
Building permits: residential (SA, $ millions)	428.1	429.8	88.7	92.4	3,010.3	October
% change, 3-month ma, yoy	21.2	42.1	12.9	18.3	19.0	
Building permits: non-residential (SA, $ millions)	435.4	414.3	49.6	48.4	2,417.0	October
% change, 3-month ma, yoy	17.1	17.1	69.6	40.3	5.0	
Housing starts (SAAR, 000s)	32.3	24.7	4.9	5.8	211.8	October
% change, 3-month ma, yoy	-16.2	-52.4	2.2	-12.0	-11.7	
Retail trade (SA, $ millions)	4,814	5,171	1,211	1,265	36,311	September
% change, 3-month ma, yoy	1.5	0.3	10.9	7.2	5.0	
Wholesale trade (SA, $ millions)	4,548	5,969	1,866	1,114	46,338	September
% change, 3-month ma, yoy	0.4	14.5	60.5	8.0	6.5	
Manufacturing sales (SA, $ millions)	3,412	6,370	1,086	1,427	52,163	September
% change, 3-month ma, yoy	-5.2	15.9	31.0	4.8	5.0	

Source: Statistics Canada. yoy=year-over-year; SA=seasonally adjusted; SAAR=seasonally adjusted at annual rates



CURRENTS
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Monthly Economic Bulletin

MONTHLY FEATURE

WELL-BALANCED:

MANITOBA Economic Profile and Forecast

The financial crisis in the US (and by extension, the world), in addition to exacerbating pre-existing signs of recession south of the border, has introduced a very uncertain "new global normal." For instance, the Canadian dollar is now back around 80 cents US after hovering at parity earlier this year. One feeling lingers about all this market turmoil: this is not over yet.

How properly equipped is Manitoba in this new economic context? In two words: pretty well. Manitoba's economic performance has been very good recently. Many dials on the dashboard indicate positive results so far for 2008 and, all things considered, decent growth in 2009.

The province's labour market remains one of the tightest in Canada. In the first ten months of 2008, Manitoba created 10,800 jobs (+1.8% compared to the same period in 2007). Full-time employment in Manitoba was up 2.5% over the January-October period while part-time employment decreased 1.0%. Over that same period, the unemployment rate averaged 4.1%, second lowest behind Alberta and lower than the 4.4% rate observed in 2007. As a result of solid labour income growth, household spending has

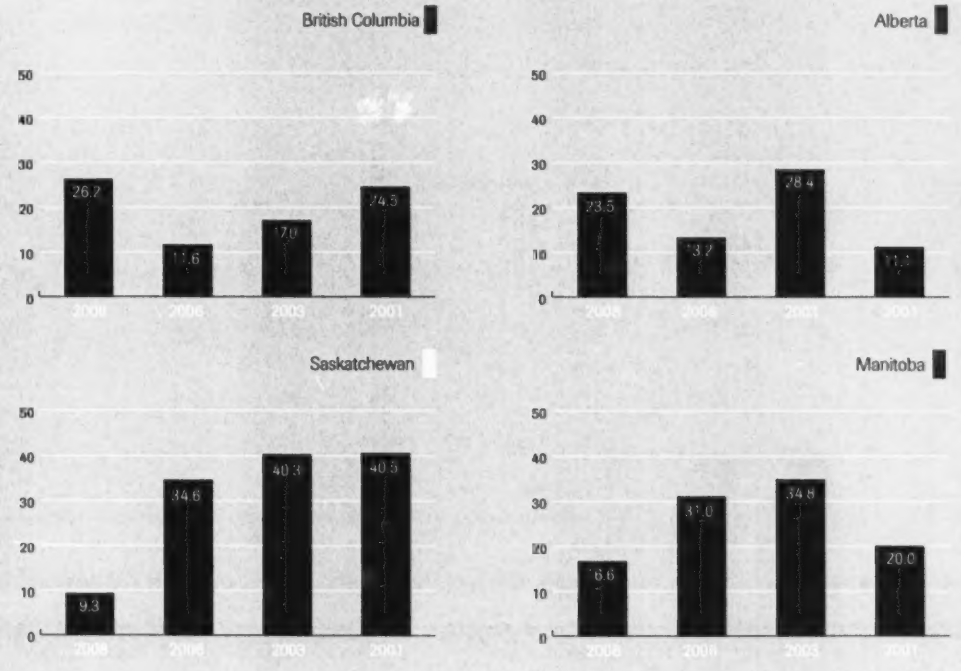
BEHIND THE NUMBERS

One of the big issues affecting the West's economy is its capacity to retain its young people to counter the aging trend of its population.

While roughly one-quarter of Alberta and BC young adults feel that it is unlikely that they will be in the same province in five years, this drops to 16.6% for Manitoba young adults, and below 10% for Saskatchewan young adults.

Those mobility perceptions stand in stark contrast to expectations over the past seven years. The strongest changes are seen in Saskatchewan: while 4 in 10 young adults in 2001 and 2003 anticipated moving within five years, only 1 in 10 currently anticipate moving—a difference of over 30 percentage points.

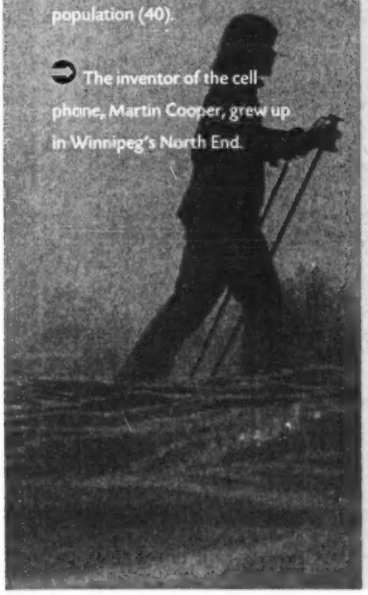
Proportion of Population Aged 18-24 Unlikely to be Living in the Same Province Five Years From Now



Source: Canada West Foundation

Did you know?

- Canada's oil and gas extraction industry spent $2.8 billion to protect the environment in 2006, more than any other industry.
- Fifteen to twenty-five percent of the Prairie Region is wetland.
- Internet users from Alberta were the heaviest online shoppers in Canada in 2007, with one-half placing an online order.
- Canadian children and teenagers get about 20% of their daily intake of calories from beverages.
- Since 2000, the number of employed people in Canada has grown at twice the pace of that of the United States (2.0% versus 1.0%).
- The median age of Canada's Inuit population is 22, about half that of the non-Aboriginal population (40).
- The inventor of the cell-phone, Martin Cooper, grew up in Winnipeg's North End.



picked up. Retail sales are up 8.7% over the first nine months of 2008, pointing to further growth in household purchases.

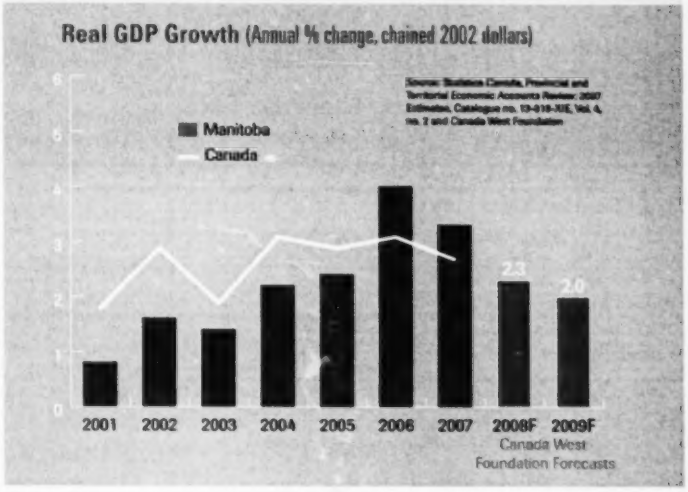
Growth is solid in key sectors such as crop production. Based on data for the first three quarters of 2008, farm cash receipts for crop sales jumped 31.1% despite softer prices around the mid-point of 2008. Canola production in 2008 was expected to exceed the previous record production of 2007, with mid-harvest reports pointing to a 17% increase. Wheat production (excluding durum) was expected to surge by 27%.

Non-residential construction is also doing well. In 2008, intentions for public and private investment are very promising (+10.9%) as a mix of projects move toward completion. They include an acceleration of work at Manitoba Hydro's Wuskwatim generation project; the new terminal building at Winnipeg International Airport; the upgrading of Vale-Inco's mine site in Thompson; the continuation of the Red River Floodway expansion project; and numerous highway and bridge construction sites all over the province.

The residential construction story is somewhat different. Manitoba housing starts are forecasted to decline by 5.0% in 2008, reflecting a higher-than-desired inventory of multi-family units in Winnipeg, mainly in the higher price range ($250,000+). Nonetheless, overall starts will remain high by historic standards.

Manufacturing activity is high in a number of innovative industries, with growth centered in transportation equipment, which accounts for about 14% of the sector. Boeing Canada Technology in Winnipeg has a sizeable backlog of orders for Dreamliner components. In the bus manufacturing industry, New Flyer Industries is busy filling new orders for 794 buses which were announced late in 2007. There has also been growth in the primary metals industry, mainly in nickel, where Vale-Inco just completed the first fully integrated nickel mining and processing complex in Thompson.

With so many things going for Manitoba, it is not surprising that the interprovincial migration tide is now turning in its favour. For two years in a row, the number of Albertans moving to Manitoba has jumped while the number of Manitobans moving to Alberta declined. Combined with Manitoba's success in attracting international migrants, this resulted in faster population growth: the increase of 14,445 persons in 2008 was nearly the same as the growth of 2006 and 2007 combined.



If one ignores outside factors for a minute, it is striking how Manitoba is currently sitting in an economic "sweet spot" where prosperity comes from different sources, none of which dominates enough to upset the economic apple cart too much. While booming Saskatchewan and Newfoundland and Labrador will probably post much stronger growth in 2008 thanks to demand for their key resources, when all is said and done, Manitoba's growth will undoubtedly be spread among different areas, giving the province a degree of balance that other, faster-growing jurisdictions may come to envy at some point in the future. However, a high debt-to-GDP ratio could prove to be potentially problematic under a scenario where lenders would reduce the availability of credit to Manitoba (especially its large infrastructure projects) due to developments in the financial markets or to large-scale credit requirements by the incoming US Administration.

The balance we observe in Manitoba's diversified economy should help it weather the storms ahead and post growth higher than the Canadian average. The Canada West Foundation is forecasting that Manitoba's real GDP growth will be 2.3% for 2008 and 2.0% for 2009.

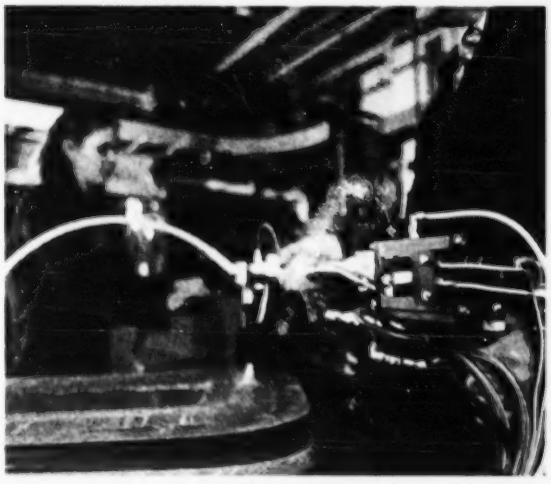
Industry Spotlight: Composites Technology

Composites technology refers to the combination of two or more materials to develop a stronger and more durable final material, with applications in the aerospace, automotive, biomedical, and sporting goods industries, among others.

Composites technology is growing in Manitoba, the location of Canada's largest concentration of firms focused on composites R&D. This group includes Bristol Aerospace, Boeing, Air Canada, Motor Coach Industries, Acetek Composites, Carlson Engineered Composites and Faroex Ltd. The landing gear doors for Boeing's 787 Dreamliner passenger jet as well as some baggage compartment doors for motor coaches are among the composite applications developed in Manitoba.

The not-for-profit Composites Innovation Centre (CIC) in Winnipeg is jointly supported by industry and government and was established in 2003 to act as an anchor institute for the composites industry in Manitoba. The CIC offers consulting and testing services and has helped many companies successfully develop and market new composite products.

Winnipeg's aerospace industry, the largest in western Canada, has also developed extensive expertise in composite materials.



Engineers at the CIC lab laying up a Bio-Composite Instrument Panel for an Intercity Coach Dashboard.

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www.cwf.ca
REPORT

BC's Bid for a 'Hydrogen Economy'

In an age where everyone is trying to "go green," BC is placing its bets on the fuel cell.

Fuel cells work by converting chemical energy into electrical energy, by combining hydrogen with oxygen to produce water, electricity and heat. As such, the cells can be up to three times more efficient than internal combustion engines in vehicles.

In 2005, the BC government adopted a plan to make BC the world's leading hydrogen economy by 2020. A "hydrogen economy" has the potential to reduce greenhouse gas (GHG) emissions, improve public health and support sustainable tourism in BC.

Burnaby-based Ballard Power Systems, a fuel-cell research pioneer, was joined by other related companies over the years, creating a cluster expected to have revenues of $3 billion and to employ 10,000 people by 2010. The National Research Council of Canada's Institute for Fuel Cell Innovation was founded in Vancouver in 2002 to help strengthen and build this cluster.

A keystone of the industry's efforts is the "Hydrogen Highway" project, which aims at demonstrating and deploying this technology. Hydrogen-fuelling infrastructure and fuel cell technology will be on display along the route from the Vancouver airport to Whistler, in time for the 2010 Olympic Games. BC Transit has ordered 20 hydrogen buses for its fleet, at a cost of $89 million, which will be based in Whistler for the Olympics.

However, many people argue that fuel cells are not the answer to our search for sustainable transportation. We are still far from mass production of hydrogen fuel cell cars. In fuel cells, hydrogen does not act as a fuel but rather as a store for energy produced elsewhere. The "cleanliness" of fuel cells therefore depends on the type of energy used to produce the hydrogen. In the short-term, the most promising methods for cheaply producing hydrogen are natural gas, biomass or coal. Hydrogen can come from fossil fuels through steam reforming, it can be recovered from water through electrolysis, and there are also several technologies that can convert biomass into hydrogen. When produced from clean, renewable sources, hydrogen makes fuel cells virtually emission-free.

Furthermore, shipping hydrogen presents problems because hydrogen is a very low-density gas which takes up large volumes in its natural state. Compressing it requires energy and makes it potentially dangerous. Then there is the chicken-and-egg infrastructure problem; nobody wants to buy a car they can't fill up, but building hydrogen fuelling stations is a risky investment with no cars to use them.

Despite the caveats, governments around the globe have been investing in hydrogen research and the industry remains optimistic. Several new models of fuel cell-based cars are being test driven in the US. If the hydrogen fuel-cell car does become a reality, BC will be at the forefront of a new era in transportation. ■

Located at NRC-IFCI, the Pacific Spirit Station (PSS) is a major fuelling station for the Vancouver Fuel Cell Vehicle Program.

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